

# **CalSTRS Explains Sponsorship of Declassification Proposal at the 2015 Perry Ellis Annual Shareholders Meeting**

*MarketWatch*

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## **Believes the Perry Ellis Board Must Be Held Accountable to Shareholders Annually to Address Significant Long-Term Underperformance**

WEST SACRAMENTO, CA, Jul 06, 2015 (Marketwired via COMTEX) -- The California State Teachers' Retirement System (CalSTRS) continues to sponsor a shareholder proposal to declassify the board of directors (the board) of Perry Ellis International, Inc. (Perry Ellis or the company) at the company's upcoming annual shareholders meeting, scheduled for July 17, 2015 (the annual meeting). CalSTRS explains the reasons behind its position:

CalSTRS is a long-term investor and has been a stockholder in Perry Ellis for more than a decade. CalSTRS beneficially owns, together with Legion Partners Holdings, LLC and its affiliates (collectively, Legion Partners), an aggregate of approximately 6.3 percent of the outstanding stock of Perry Ellis.

CalSTRS believes that good corporate governance practices, and the accountability they impose, are closely related to long-term financial performance. CalSTRS also believes that shareholders are willing to pay a premium for corporations with excellent corporate governance. It is intuitive that when directors are accountable for their actions, they perform better. A staggered board has been found to be one of six entrenching mechanisms that negatively correlate with company performance, as referenced in "What Matters in Corporate Governance?" by Lucian Bebchuk, Alma Cohen & Allen Ferrell, Harvard Law School, Discussion Paper No. 491 (09/2004, revised 04/2009).

### **BOARD ACCOUNTABILITY AT PERRY ELLIS REMAINS CRUCIAL**

While there have been recent improvements made to the board and the company's corporate governance practices, the Feldenkreis family still plays a dominant role at Perry Ellis. In describing its reasons for sponsoring the declassification proposal, CalSTRS expressed its belief that the conflicts inherent with the Feldenkreis family's domination have contributed to the company's poor long-term performance, and most pointedly, a serious failure on behalf of the board to represent the best interests of all shareholders. CalSTRS believes shareholders must continue to be vigilant in their oversight of Perry Ellis, and hold the new board accountable for improving governance and long-term performance at Perry Ellis. In CalSTRS' view, if all Perry Ellis directors are elected annually, there will be greater accountability to shareholders. Therefore, CalSTRS continues to sponsor the declassification proposal.

### **POOR LONG-TERM PERFORMANCE DEMONSTRATES THE NEED FOR GREATER ACCOUNTABILITY**

CalSTRS is deeply disappointed by the long-term performance of Perry Ellis, which has significantly underperformed its peers over one-, three-, five- and 10-year periods.

Total Shareholder Returns (as of July 16, 2014 - one day prior to CalSTRS and Legion Partners' initial 13D filing)

	1-year	3-year	5-year	10-year
Perry Ellis (PERY)	-16.2%	-26.4%	142.3%	18.8%
Peer Group	16.6%	76.1%	290.9%	508.6%
Russell 2000 Index	12.3%	44.9%	135.9%	136.8%
S&P 500 Index	20.7%	60.8%	134.1%	121.6%
S&P SmallCap 600 Index	14.9%	54.4%	153.0%	163.6%

Source: Capital IQ

As of June 30, 2015, Perry Ellis' stock has underperformed its peer group by -1,226 percent since its initial public offering in 1993. Shareholders deserve better results and, in CalSTRS' opinion, greater board accountability is the key.

On its May 14, 2015, first quarter earnings call, Perry Ellis' management touted the one-year total shareholder return at 53 percent. CalSTRS notes, however, that most of this gain occurred after CalSTRS and Legion Partners began to actively engage with the board and management to address the company's severe operational underperformance, extensive related party transactions and poor corporate governance practices. CalSTRS believes the recent governance changes and stock performance improvement have been driven by the significant shareholder pressure applied and that more watchfulness is required.

#### PERRY ELLIS' MARGIN PROFILE AND POOR RETURNS ON CAPITAL DEMONSTRATE THE CHALLENGES THAT REMAIN AHEAD

Perry Ellis' management team has talked about improving profit margins for years with the primary stated goal of achieving a 10-percent earnings before interest, taxes, depreciation and amortization (EBITDA) margin. Not only has the goal not been achieved, but the EBITDA margin has declined from 8.2 percent in fiscal year 2011-12 to 3.9 percent for the recently completed fiscal year 2014-15. Management has yet to articulate a credible plan for achieving the 10-percent EBITDA margin goal. The performance of Perry Ellis' margins, compared to its peer group as noted in the table below, shows that much work remains to be done.

Trailing Twelve Months Margins as of June 30, 2015

	Gross Margin %	EBITDA Margin %
Perry Ellis (PERY)	34.0%	4.2%
Peer Group - Maximum	100.0%	50.2%
Peer Group - Median	49.3%	13.6%
Peer Group - Minimum	35.8%	5.1%

Peer Group: CRI, CHKE, COLM, CROX, GIII, HBI, ICON, MOV, OXM, PVH, RL, VFC and WWW

Source: Capital IQ

The poor financial results at Perry Ellis have translated into very poor returns on invested capital. The accompanying 5-yr. Average ROIC chart depicts the fact that Perry Ellis' average return on invested capital (ROIC) over the last five years is below 5 percent and even more problematic is that Perry Ellis' ROIC is below every company in its peer group.

CalSTRS believes the prolonged underperformance of the company is a direct result of the company's poor execution and conflicts of interest due to the Feldenkreis family's domination of the board and management. Given that the goal of achieving a 10-percent EBITDA margin was first stated in May 2010, the board has had ample time to evaluate management's performance and take more decisive action. Yet, despite management's serious underperformance, the board recently announced the promotion of long-time COO Oscar Feldenkreis to replace his father, George Feldenkreis, as CEO. George Feldenkreis would remain as executive chairman. CalSTRS believes the board failed shareholders in this regard as it appears it conducted no serious succession planning or open search process to evaluate the best possible candidate for the CEO role at Perry Ellis. CalSTRS notes the board amended Oscar Feldenkreis' employment agreement in 2013 to effectively guarantee that he would be promoted to CEO upon the departure of his father -- otherwise potentially triggering severe costs to shareholders under his employment contract. CalSTRS believes this type of succession planning is irresponsible and inconsistent with the board's fiduciary duties. It clearly demonstrates the need for greater board accountability.

CalSTRS believes the board must be held accountable to shareholders on an annual basis if the company is to address its significant long-term underperformance. For these reasons, CalSTRS intends to vote its shares FOR the declassification of the board proposal at the annual meeting.

#### About Legion Partners

Legion Partners is a long-term-oriented activist fund focused on producing superior risk-adjusted returns for clients. Legion Partners' investment strategy is concentrated on North American small cap equities, utilizing deep fundamental research and long-term shareholder engagement to drive superior performance over time.

#### About CalSTRS

The California State Teachers' Retirement System, with a portfolio valued at \$193.1 billion as of May 31, 2015, is the largest educator-only pension fund in the world. CalSTRS administers a hybrid retirement system, consisting of traditional defined benefit, cash balance and voluntary defined contribution plans. CalSTRS also provides disability and survivor benefits. CalSTRS serves California's 879,000 public school educators and their families from the state's 1,700 school districts, county offices of education and community college districts. Follow us on Twitter @CalSTRS